IMPACT: International Journal of Research in Business Management (IMPACT: IJRBM)
ISSN(E): 2321-886X; ISSN(P): 2347-4572
Vol. 3, Issue 1, Jan 2015, 23-30

ORGANIZATIONAL DOWNSIZING: THE PAST AND PRESENT ORGANIZATIONAL STRATEGY-- A REVIEW

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ABSTRACT

This paper explained and critically examined how downsizing was viewed in the past, and attempt to find how downsizing, as an organizational strategy, is viewed today. In the old downsizing paradigm, organizational managers thought the bigger the organization the better; however, this paper acknowledged the paradigm shift in that now managers value leanness and flexibility. I argue in this paper that downsizing could be a conventional organizational strategy that is here to stay; it has become mainstream in the media, where stakeholders are now immune to the effects the reduction of internal labor. This paper provides three strategic propositions for future research as well as gives a panoramic view of the past, present, and the future of organizational downsizing.

KEYWORDS: Downsizing, Labor Reduction, Strategic Planning, Downscaling, Labor Reduction

INTRODUCTION

The literature pertaining to organizational downsizing has focused mainly on the impact on those that have been laid off (Kessler, Turner, & House, 1989; Warr & Jackson, 1978; Warr, Jackson, & Banks, 1998), why organizations downsize (Gandolfi, 20140), the driving forces of downsizing (Datta, Guthrie, Basuil & Pandey, 2010), or howdownsizing ismanaged (Luthans & Sommer, 199). This paper is significant in that it seeks to understand how downsizing is viewed strategically; if downsizing is the way of conducting business, organizationally. Downsizing literaturehas continued topress on attempts to understand how downsizing affects the organizational units involved (Evans, Gunz, & Jallard, 1997). Ivancevich (2010) espoused the premise that downsizing is seen by employees as the loss of organizational memory that would seize to exist due toa coordinated labor reduction. However, on that same note, not only does downsizing create job lossitalso serves to increaseretention in some organizational areas by laterally transferring employees and providing them temporary work (Ivancevich, 2010). Downsizing, according to literature, has positive effectson employees and the overall organization in terms of strategic competitive positioning in the business environment. Theperceptual positive effects of downsizing concerning organizations arerelated to: costs reduction, survival in a competitive business environment, differentiated strategy and overall ability to adjust to new markets by restructuring using competitive methods (Cameron, 1994; Hill & Jones, 2009). This paper takes a panoramic view at organizational downsizing with the perspective of the past, present,and the future. This paper seeks to understand if downsizing will continue to be an organizational strategy; a mainstay in the business environment as a way to build efficiency and a competitive edge. Put simply, will organizations continually use downsizing as a strategy for competitive positioning or is this just a phase that organizational decision makers are using at the business-level?

THEORITICAL FRAMEWORK

The theoretical debate over the effects of downsizing, for the most part, has been debated as to its positive and negative influences onemployees' motivation, longevity and the organization itself (Baily, Barteisman, & Haltiwanger, 1984; Cameron, 1994; Palliam & Shalhoub, 2002; Klehe et al., 2011; Aalbers & Dolfsma, 2014). Cameron (1994) espoused the idea that organizational effectiveness, because of downsizing, has changed throughout the years. Cameron (1994) pointedly stated how downsizing is the "most pervasive yet under-studied phenomenon in the business world" (p.183). In the past, downsizing, as an effective strategy was not laudable in the mainstream management vernacular. However, there was a tendency, in the past, to think of a successful firm with the assumption that bigger was a better way to position the organization. While on the other end of the downsizing spectrum, Bailey, Bartelsman, and Haltiwanger (1994) persisted that during the 80's and early 90'sdownsizing in the mainstream media and market analysis was portrayed as a method to make organizations "lean and mean" (p. 1). Palliam and Shalhoub (2002) stated how workforce reduction plays an important role in the alignment and pursuit of strategies of corporations. Thus, they acknowledged the integrative role of downsizing and its relation to strategic planning and goal making as a methodological restructuring process. Aalbers and Dolfsma (2014) echoed the sentiments of (Chandler 1962; Shah 2000; Palliam and Shalhoub, 2002;Trahms et al. 2013) who stated that, "Downsizing, as a particularly radical form of corporate reorganization, is an important instrument for firms to reestablish alignment between strategy and organization" (p. 2). Despite the advantages of downsizing, it is also seen as a hindrance to employee innovation that is directly related to the destruction oftheorganizationalsocial fabric, which is the view shared with many others but particularly by (Brockner et al. 1987; Dougherty & Bowman 1995; Amabile & Conti, 1999; Bommer & Jalajas 1999; Shah, 2000; Fisher & White, 2000; Mellahi & Wilkinson, 2008). However, empirical evidence would suggest, based on Aalbers and Dolfsma (2014) that even a decrease in an organization'ssize, the overall informal and employee innovation networks do not change, despite the overall posture of the current literature.

MANAGEMENT IDEOLOGY ON DOWNSIZING PREVAILS

Bailey, Bartelsman, and Hahiwanger (1994) expressed how manufacturing plants that increased productivity at the expense of employment were as productive as those plants that increased both employment and production. During this time, the manufacturing sector was rapidly growing- accompanied by a substantial reduction in employment. This was, of course, a pointed link between rising productivity in manufacturing and decreasing employment. The authors stated that "During the 1960s and 1970s, output and employment fluctuated cyclically around a growing trend with modest growth in productivity" (p. 2). Additionally, in the 1980's this growth pattern changed; although, the average labor productivity rose sharply shown by micro-level data on individual plants. Instead of the micro-level data, there was support that organizational downsizing was associated with productivity increases (Bailey et al., 1994). Against conventional wisdom, it was the manufacturing plants, region, size, age, and ownership types that were determining factors in decision-making to downsize (Bailey et al., 1994).

Rust (1998) study explored the cost of downsizing and its relation to managerial ideologies during the time span of 1992 – 1995. Through the effects of downsizing, evidence from this study showed that downsizing does not improve organizations financial situation, nor does it improve productivity (Rust, 1988). Rust (1988) asserted that "ideological forces influence decisions to downsize in addition to other reported reasons, such as cost reductions" (p. 89). Rust (1998)

referred to the view of (Perry, 1985; Ropp, 1987; & Tomasko, 1987) who supported the notion that downsizing is a justifiable measure that serves to resuscitate firms on the decline. During this timeframe, perhaps, the ideological forces influenced the decisions to downsize organizations. That is, management ideologies were the driving force in the mainstream thought process; suggesting that downsizing is business as usual, instead of the economic environment in which the organizations existed (Rust, 1998). Additionally, Rust(1998) also explained how (McKinley et al., 1998) purported that the psychological contract changed where business and management articles magazines hada positive influence and legitimatized downsizing as an opputune organization strategy. The ideological approach to downsizing was shaped by management's belief in their organizational structure when benchmarked against their competitive environment. Market competition during this era was introduced to globalization, increasing free markets, such that downsizing was a means to remain competitive, but not quite justified at this point in this era of business.

DOWNSIZING DECSIOSION-MAKING LINKED TO ORGANIZATIONAL PERFORMANCE

Dial and Murphy (1995) study discussed the influence of a firm's decision to downsize with the influence of organizational compensation incentives that creates shareholder wealth. Shareholder wealth as a strategic initiative, gave managers more incentive to shape corporate direction by eliminating business units that were underperforming. This strategy was called for by a change in management that could see the performance of the organization with a new set of eyes, new skill sets, and no attachment with the overall community. Managers with compensation packages linked to performance [financial, organizational, stock price] were incentivized to boost those indicators. Dial and Murphy saw a positive relationship which reflected those of (Stewart, 1991), between an organizations excess capital and market needs which creates value under excess capacity, and involving the diverted resources from internalbusiness enterprises that earned less than the costsof investedcapital which requires the transferringof humansand physical capital from industries with excess to other sectors. The upside to downsizing, in meeting the goals of the organization, is through the reduction of workplace lay-offs, which transfers workers skill-sets to a more valued industry. When organizations are faced with internal unit activities that are losing value in the marketplace which is why the reallocation of resources are unavoidable. Management compensation, thus, creates an incentive for creating high-performing business models where shifting resources to remain competitive are tied to the pay-for-performance schema.

Murphy (1997) study examined CEO compensation as one major incentive to create wealth and to increase the size of an organization; ultimately, with the aim of increasing shareholder value. The idea of increased aim in shareholder wealth, was, of course, attacked by the populist who disagreed with high CEO compensation despite capital excess of the organization. There were, however, political forces that attacked CEO compensation packages, because CEO compensation was seen as related to organizational closings, economic recessions, and layoffs related to downsizing. Unfortunately, organizations have trouble facilitating a governance system that provides incentives so that managers take actions in a new economy where activist scrutinize CEO's pay-for-performance optionsare relative to downsizing. Murphy noted "the strong pressures on managers to avoid downsizing strategies suggest both the difficulty and importance of designing effective compensation and incentive systems for managing in the current world economy" (p. 422). Evidence showed how stock-price reactions to downsizing made obvious that due to shareholder distributions, industries offer little growth, but offer substantial opportunities to create wealth.

Palliam and Shalhoub (2002) discussed in their study the role of downsizing as an integral element of a corporate strategy. They suggested that there is a strong correlation between downsizing as a cost measure and long-run profitability. Downsizing as a strategic activity, in other words, is defined as a selective reduction of the firm's resources, downscaling, and downscoping. Palliam and Shalhoub agreed with the assertion made by (Korake, 1997) who stated that, "managers of firms defend their lay off practices as necessary in order to 'meet global competiveness,' 'improve efficiency,' or 'become leaner and meaner'" (p. 436). Thus, Palliam and Shalhoub agreed that downsizing is a method used to decrease diversification and conglomerate activities of the 60's, 70's, and 80's, where literature has shown that over-diversification in many organizations have led to poor performance. As a result of poor performance of key organizations in the 60's, 70's, and 80's,(McKinley et al., 1981) postulated that managers now see downsizing as a performance enhancer, even in the absence of organizational decline. The performance measure indicators used in the study were: return on investment, return on equity, market share, and cash flow from operating expenses, and cost reduction form quarterly expenses. This study has confirmed that downsizing has effects on short-term without long-term consequences if aligned with corporate strategy that is linked to the performance of the organization.

DOWNSIZING PARADIGM SHIFT IN STRATEGIC EMPLOYEE REDUCTION

Klarner and Raisch (2013) study found that downsizing or making regular changes to the workforce make-up, quite often are able to outer perform those that make irregular changes to the structure of the organization. Organizations that can downsize when needed are able to adopt to various competitive environments. However, the ability for an organization to make needed changes does require them to create a sense of stability, for this is a balance to ensure long-term sustainability (Klarner & Raisch, 2013). Ultimately, these internal changes are to be evaluated in regards of the timing of the market environment; managers need to evaluate previous market responses prior todownsize changes. This strategic change process should not be implemented solely to outpace competition; rather, it should be executed to channel resources into innovation (March, 2006; Klarner & Raisch, 2013).

Aalbers and Dalfsma (2014) found how downsizing, as a form of corporate reorganization is an effective instrument that aligns the organization managed-units with the rest of the organization and strategy (Chandler, 1962; Shah, 2000; Trahms et al., 2013). To date, this research study purported that no empirical research have studied the impact of downsizing on innovative activity within organizations overtime (Mellahi & Wilkinson, 2008; Gandolfi & Oyster, 2010). Moreover, downsizing was described in this study as a planned radical corporate change to increase efficiency and effectiveness (Cameron et al., 1991; De Meuse et al., 1994; (Budrus, 1999; little, 2000; Schmitt et al., 2012;Gandolfi, 2014). To create innovativeness, efficiency, and effectiveness, organizational managers seek to downsize to: decrease costs, enhance revenues, and to increase competiveness. The downsizing paradigm has shifted in the competitive environment, and is known by managers as a process described by (Aalbers and Dalfsma, 2014) and echoed that of (Cameron et al., 1991) who defined it as a workforce reduction strategy without consideration of differentiation in the organizational structure.

Lewin and Johnston (2000) study examined the pace of organizational competitive industries and the immense pressure from the external environment to view downsizing as a strategic process. Since then, organizational managers are finding that it is not advantageous to own and operate an increased amount of factories or to employ more people than what is needed for an operation. Lewin and Johnston shared the same sentiments of downsizing as (Bahrami, 1992) who voiced

how managers of organizations are seeking to accommodate fast paced changes that has, “shifted the corporate paradigm” and allows them to move away from the large, hierarchical, and rigid organizations. Downsizing now represents a socioeconomic continuum—a permanent shift in the social, economic, and organizational competitive structure that is here as a mainstay in the corporate environment (McKinely, Sanchez & Schick, 1995). Lewin and Johnston claimed that downsizing increased throughout the years as a strategic tool based on three institutional forces: Coercive isomorphism, mimetic isomorphism, and normative isomorphism. These forces are seen as transformational forces in the corporate industry as it relates to shift in the downsizing paradigm.

DISCUSSIONS

Organizational downsizing, as this paper has reported, has had a varied set of meanings that are analogous to the era and the context in which it took place. From a historical perspective, it has been shown that downsizing was not always considered appropriate by mainstream medium, where the organizational thought was if bigger than better. Throughout the many years, there has been an *isomorphic effect* as to how the mainstream connote organizational downsizing to make it more appealing to create and sustain survival and organizational effectiveness. There is, however, literature that disagrees with the downsizing activity and the ripple effects it creates in both the employees motivation and organizational performance (Tsai & Shih, 2013; Gandolfi, 2014). Are we still thinking about organizational downsizing the same as we once did? According to Rust (1989) who asserted that it was the ideology of management that legitimized to thrust forward downsizing as way to become leaner and better to compete in a changing business environment. Do managers have that same ideology that once directed the way of thinkingto downsize? Instead, are managers divesting from unproductive entities to focus on fewer entities and business units with a push for sustainable growth?

This paper purported that fundamentally the concept of organizational downsizing has not reached it maturity, in terms of, the business environment acceptance of it as a conventional business strategy. That is why; organizational downsizing needs to be researched related to its future on-going usage as a business-level strategy used by organizations indefinitely. What this paper has gleaned is the fact that, employees, managers, and mediums, are all undecided as to both the future benefits and organizational fabric deconstruction resultant of downsizing. Therefore, there are two critical areas that should be captured: trust when downsizing and downsizing communication (Tourish, Paulsen, Hobmann, & Bordia, 2004). That is, two concepts that need to be explored for future from the perspective of employees and managers. Currently, downsizing as a strategy is mostly communicated in the management echelon (Tourish et al., 2004). Therefore, if, organizational downsizing is to be a conventional stratagem for firm differentiation (Hill & Jones, 2009) or to increase firm performance (Tsai & Shih, 2013) the literature on organizational downsizing needs further research that can reflect how organizations plan to use downsizing in the coming years, and if it will have the same connotation that it currently has

CONCLUSIONS

Downsizing as a strategic opportunity to remain competitive was not seen in the same light as the early days of production [60’s, 70’s, and 80’s] where bigger was considered better. The connotation of downsizing an organization does not have the meaning as it once did. However, in this era, business managers are increasingly concerned with retaining knowledge-based employees, and the advent of the internet as a form of knowledge-transfer, with built in efficiency for work processes to be made easier. Managers knew that in order to remain competitive they had to decrease the workforce and continue to produce at high levels. After all, the literature has noted in this paper that downsizing does not interfere

with employee innovativeness or employee goal-orientation post-downsizing. Currently, downsizing is seen by managers as a positive win-win [for both employees and employers], because employees who are skilled but are no longer needed in the main operation, often times, have the ability to transfer to other areas of the organization. The idea is to provide options to employees and to the organization by a redesign of work task to maintain the same quality to customers prior to downsizing.

Downsizing was not always seen as an effective course of action for organizations. This notion has changed, partly due to the shift in the needs of surviving in a competitive environment. The environment includes fast paced technology and globalization forces; all of which requires the reduction of unprofitable business units. Organizational managers have come to realize that bigger is not always better, especially when there are limited resources; those that are needed to provide customers with the same amount of quality pre and post downsizing. Service and product quality is a process based on the cultural aspects that require managers to perhaps downsize the operation in order to focus on their core offering. That is to say, managers downsize [reduce labor] to allocate resources to cultivate a relationship with a target market by providing quality service product offering. Downsizing is here to stay; it is a performance driver, despite the hardships that are felt by resident employees. However, the overall organization, its managers, and shareholders, seek higher performance levels from employees byremaining competitive and surviving innew business environments. In light of future research on the forward usage of downsizing as a stratagem, there are three propositions that should be considered in future research: Will downsizing be an activity that is likely to remain a business strategy option?

- If downsizing remains a strategy of choice, will employees recalibrate their sentiments about it?
- Will downsizing as we know it change in becoming a normal strategic business practice?

This paper supports the fact that downsizing as a concept has missing links to the future understanding of how downsizing activities will take form, with respect to stakeholders, stockholders, shareholders, managers, employees, and mainstream media.

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